

Draft date: 8/6/24

2024 Summer National Meeting
Chicago, Illinois

LONG-TERM CARE ACTUARIAL (B) WORKING GROUP

Monday, August 12, 2024

1:00 – 2:30 p.m.

Hyatt Regency McCormick Place—Regency Ballroom—Level 2

ROLL CALL

Paul Lombardo, Co-Chair	Connecticut	Margaret Garrison	Nebraska
Fred Andersen, Co-Chair	Minnesota	Jennifer Li	New Hampshire
Sanjeev Chaudhuri	Alabama	Bill Carmello/Neil Gerritt	New York
Sarah Bailey	Alaska	David Yetter	North Carolina
Ahmad Kamil	California	Laura Miller	Ohio
Stephen Flick	District of Columbia	Andrew Schallhorn	Oklahoma
Lilyan Zhang	Florida	Timothy Hinkel	Oregon
Weston Trexler	Idaho	Jim Laverty	Pennsylvania
Scott Shover	Indiana	Carlos Vallés	Puerto Rico
Nicole Boyd	Kansas	Aaron Hodges	Texas
Marti Hooper	Maine	Tomasz Serbinowski	Utah
Kevin Dyke	Michigan	Joylynn Fix	West Virginia
William Leung	Missouri	Rebecca Rebholz	Wisconsin

NAIC Support Staff: Eric King

AGENDA

1. Consider Adoption of its July 2 and Spring National Meeting Minutes
—Fred Andersen (MN) and Paul Lombardo (CT) Attachment A
Attachment B
2. Hear an Update on and Discuss a Single Long-Term Care Insurance
(LTCI) Multistate Rate Review Approach, Including Treatment of
Long-Duration, Older Age Policyholders Who Have Experienced Large
Cumulative Rate Increases—Fred Andersen (MN) and
Paul Lombardo (CT) Attachment C
Attachment D
Attachment E
Attachment F
Attachment G
Attachment H
3. Discuss Any Other Matters Brought Before the Working Group
—Fred Andersen (MN) and Paul Lombardo (CT)
4. Adjournment

Draft: 7/16/24

Long-Term Care Actuarial (B) Working Group
Virtual Meeting
July 2, 2024

The Long-Term Care Actuarial (B) Working Group of the Long-Term Care Insurance (B) Task Force met July 2, 2024. The following Working Group members participated: Paul Lombardo, Co-Chair (CT); Fred Andersen, Co-Chair (MN); Sarah Bailey (AK); Stephen Flick (DC); Lilyan Zhang (FL); Scott Shover (IN); Nicole Boyd (KS); Marti Hooper (ME); Kevin Dyke (MI); William Leung (MO); David Yetter (NC); Michael Muldoon (NE); Jennifer Li (NH); Neil Gerritt (NY); Craig Kalman and Laura Miller (OH); Jim Laverty and Shannen Logue (PA); Aaron Hodges and R. Michael Markham (TX); Tomasz Serbinowski (UT); Rebecca Rebholz (WI); and Joylynn Fix (WV). Also participating was: Julie Fairbanks (VA).

1. Discussed Comments on a Single LTCI Multistate Rate Review Approach

Lombardo presented comments received from America's Health Insurance Plans (AHIP) and the American Council of Life Insurers (ACLI) (Attachment), the Virginia State Corporation Commission's Bureau of Insurance (Attachment), Genworth Life Insurance Company (Attachment), the Washington Office of the Insurance Commissioner (Attachment), and Robert Darnell (Attachment) on the exposure of the Minnesota approach with any suggested adjustments as a candidate for a single long-term care insurance (LTCI) multistate rate review approach methodology for use in multistate actuarial (MSA) filing reviews.

There was discussion on Virginia's comment that the MSA recommendation provide catch-up percentages separate from the overall rate increase. Yetter said he prefers seeing the rate increase plus the catch-up.

Jan Graeber (ACLI) said the ACLI Long-Term Care Insurance Committee will meet later this month to discuss potential ideas to ensure consumers continue to receive valuable long-term care coverage while addressing affordability concerns fairly and soundly. She said ACLI is dedicated to finding a solution that will address the Working Group's concerns. In response to the assertion in the ACLI/AHIP comments that a single methodology cannot work in all cases and that the Minnesota approach results in insufficient rate increases for older blocks of LTCI, Andersen said feedback from the Working Group is that it results in excessive rate increases for older blocks. He asked if this is what ACLI/AHIP views as the main weakness of the approach or if they have identified other weaknesses. Graeber said ACLI/AHIP thinks there are cases where the cost-sharing aspect of the Minnesota approach results in insufficient increases, and they have not identified any specific concerns with it, but they want to preclude any adjustments to the methodology that are non-actuarial in nature.

Andersen said he appreciates the cost of delay issue raised in Genworth's comments, and the MSA team is relying on a decision made at the commissioner level on the balance between fairness to consumers and preventing insurer financial distress, as well as bringing rates to similar levels among states. He said there is nothing in the MSA Framework that would prevent a state from working out a solution for a cost of delay issue with an insurer.

Andersen said the Minnesota and Texas approaches have a long history, have both been publicly vetted over the past eight years, and both were adopted as part of the MSA Framework. He said the Minnesota approach has been used to review over 250 filings and seems to have worked well. Andersen said it has also worked well for many filings in the pilot and adopted versions of the MSA Framework. He said the MSA team has heard from regulators that the Minnesota Approach yields increases that are too large, and insurers have said it yields increases that are not large enough. He said he thinks no single methodology will completely satisfy both parties.

Andersen said an issue that has emerged is large rate increases for policyholders at roughly age 85 and policy duration 25, which is referred to as the 85/25 issue. In Minnesota, he is exploring state adjustments to the Minnesota approach to mitigate these larger increases and proposes that the MSA Framework also do so in a way that does not create discrimination issues. He and Lombardo have had many discussions with commissioners and regulatory actuaries, and the response has been unanimous that this issue should be pursued. Advantages to the Minnesota approach as a candidate for a single methodology are that it is well-understood and documented, has been in use for over eight years, and that simple adjustments to weightings for the cost-sharing factors could address the 85/25 issue. He said there may be benefits to reducing the insurer's cost-sharing in earlier policy durations, as it may reduce financial distress for younger blocks in years to come and prevent large rate increases for older aged policyholders later in the block's life. He said a possible solution would be to reduce insurer cost-sharing for policyholders with lower cumulative rate increases and increase insurer cost-sharing for policyholders with higher cumulative increases. He said this will provide two levers to mitigate the 85/25 issue, one currently and the other later in the life of the block.

Lombardo said the Working Group and the Long-Term Care Insurance (B) Task Force have established the goal of adopting a single methodology for use in the MSA Framework by the end of this year and to address the 85/25 issue in the process. He said the MSA Framework will always be open for revision, and the Working Group and MSA Team will remain open to considering modifications that will produce better results for all stakeholders. He said even if the Working Group and Task Force adopt a single methodology and a way to address the 85/25 issue, these issues and others will continue to be worked on in the future. He said this is a necessary two-step process that needs to occur to have a better opportunity for more regulators to understand the concept of using a single methodology in the MSA Framework and to potentially get more regulator support going forward.

Fix said she agrees with Andersen and Lombardo and thinks that a change must be made. She said a modified Minnesota approach for use as a single methodology provides a balanced solution to the majority of the issues regulators are facing. Miller said she also agrees and thinks that regulators need to not only consider the actuarial aspects of rate increase review, but also consider the harm that can come to consumers from the way insurers price these products. She asked why age 85 and duration 25 were singled out and if the intent is to have a single cost-sharing modification for policyholders at or greater than age 85, duration 25, or if the modification will vary by age and duration. Andersen said under his proposal, there will not be anything explicit at age 85, duration 25, but it will reflect the ages and durations in a block where larger cumulative increases are seen. He said these policyholders will be the ones who benefit from the adjustment. Lombardo said 85 and 25 were chosen as an easy way to describe the issue and are not meant to apply exclusively to such policyholders. Miller suggested reducing duration 25 to a smaller number. Logue said Pennsylvania recognizes these issues are problematic and that there is no perfect solution to them. He supports the Working Group's efforts toward implementing a single approach.

2. Exposed a Single LTCI Multistate Rate Review Approach for Comment

Lombardo said the Working Group will expose the Minnesota approach with any suggested adjustments to the cost-sharing formula to address the 85/25 issue as a candidate for a single LTCI multistate rate review approach methodology for use in MSA filing reviews for a 30-day public comment period ending Aug. 1. He said the Working Group will discuss comments received during its Aug. 12 meeting.

Having no further business, the Long-Term Care Actuarial (B) Working Group adjourned.

Meetings/Member Meetings/B CMTE/HATF/2024_Summer/7-2-24 LTCAWG/LTCAWG Minutes 07-2-24.docx

Draft Pending Adoption

Attachment B
Long-Term Care Insurance (B) Task Force
3/16/24

Draft: 3/20/24

Long-Term Care Actuarial (B) Working Group
Phoenix, Arizona
March 15, 2024

The Long-Term Care Actuarial (B) Working Group of the Long-Term Care Insurance (B) Task Force met in Phoenix, AZ, March 15, 2024. The following Working Group members participated: Paul Lombardo, Co-Chair (CT); Fred Andersen, Co-Chair (MN); Sanjeev Chaudhuri (AL); Sarah Bailey (AK); Thomas Reedy (CA); Stephen Flick (DC); Kyle Collins (FL); Weston Trexler (ID); Scott Shover (IN); Nicole Boyd (KS); Marti Hooper (ME); Kevin Dyke (MI); William Leung (MO); Michael Muldoon (NE); Jennifer Li (NH); Craig Kalman (OH); Andrew Schallhorn (OK); Jim Laverty (PA); Glorimar Santiago (PR); R. Michael Markham (TX); Tomasz Serbinowski (UT); Joylynn Fix (WV); and Rebecca Rebholz (WI).

1. Adopted its Feb. 20, 2024, and 2023 Fall National Meeting Minutes

Lombardo said the Working Group met Feb. 20, 2024, and Nov. 30, 2023. During its Feb. 20 meeting, the Working Group took the following action: 1) discussed a single long-term care insurance (LTCI) multistate rate review (MSA) approach. He said during its Feb. 20 meeting, Markham requested to make additions to the Working Group's Nov. 30, 2023, minutes, and these comments are reflected in the Working Group's Feb. 20 minutes, but the Nov. 30 minutes have not been amended to include Markham's additions. Markham said he agreed with this approach.

Muldoon made a motion, seconded by Trexler, to adopt the Working Group's Feb. 20, 2024 (Attachment XX) and Nov. 30, 2023, (Attachment) minutes. The motion passed unanimously.

2. Heard an Update on a Single LTCI MSA Rate Review Approach.

Lombardo presented items discussed during the Working Group's Feb. 20 meeting concerning a recommendation for a single MSA LTCI actuarial approach after regulator feedback had been received (Attachment XX). Markham provided responses (Attachment XX) from the Texas Department of Insurance (TDI) to each of the issues in Lombardo's presentation.

Andersen gave a presentation (Attachment XX) on the Minnesota approach and consensus MSA concepts. He said the primary goal is to establish a single actuarial approach to be used by the MSA team for reviewing MSA LTCI rate increase filings. He said regulators have likely reviewed hundreds of LTCI rate increase filings, but the Working Group's current focus is on the limited number of times companies choose to submit a filing through the MSA process. He said a transparent review method is needed for the MSA team to develop a recommendation that is sent to the states that the filing applies. He said the MSA team hopes each state approves the recommended increase, but each state retains its authority to approve the increase it deems appropriate. He said the concept of a single actuarial approach only applies to MSA reviews and does not imply that states will need to use this approach for their state-specific filings outside of the MSA process. Lombardo said the movement toward a single approach for the MSA process came about through conversations with many insurance department commissioners across the country who feel they would be more comfortable supporting a more transparent MSA process. He said the commissioners do not want the weightings of the Texas and Minnesota approaches to vary among different filings, as has been done with past MSA reviews. He said the Working Group is developing a single approach with the hope that more states will accept MSA recommendations, and state actuaries will be able to

Draft Pending Adoption

Attachment B
Long-Term Care Insurance (B) Task Force
3/16/24

explain the results to their commissioners in a much more straightforward manner, produce more consistent results, and increase the number of filings being submitted to the MSA process.

Andersen said he thinks that if the Texas approach had been applied from the time a block of business was issued, and companies knew the rules for its application, it could have worked very well and possibly functioned as the single MSA approach. He said the vast majority of blocks that can be reviewed using the MSA process are older blocks that precede the implementation of the Texas approach, and the full rate increase indicated by the Texas approach must be requested for past losses to be recouped. He said these reasons are why it has not worked well for many MSA filings, and the MSA team has seen this in enough filings to determine that the Texas approach cannot work as the single MSA approach.

Andersen said the Minnesota approach with adjustments to align with consensus MSA concepts should be the basis for the single approach. He gave an overview of potential adjustments as detailed in the attached presentation. He said the Working Group addressed the first six consensus items during its Feb. 20 meeting but still needs to address the weighting between the if-knew and makeup premiums and additional cost-sharing considerations. He said if Working Group members are uncomfortable with how the Minnesota approach currently addresses these issues, adjustments can be made.

Lombardo said he would like to know if companies are reducing their liabilities for reasons other than reduced benefit options. He said the Working Group needs to address Markham's concern about reserve releases in instances where an increase greater than that indicated by the Texas approach is approved.

Andersen said that within the checklist used in the MSA process, there is a provision that if a company makes a case that they need a rate increase because their experience has deteriorated, they need to reflect something at least as conservative in their *Actuarial Guideline LI—The Application of Asset Adequacy Testing to Long-Term Care Insurance Reserves* (AG 51) reserve testing.

3. Exposed a Candidate for a Single LTCI MSA Rate Review Approach.

Lombardo asked the Working Group for its views on exposing the Minnesota approach with any suggested adjustments as a candidate for a starting point for a single LTCI MSA rate review approach in order to develop a single LTCI MSA rate review approach to be finalized and presented at the Fall National Meeting.

Fix made a motion, seconded by Boyd, to expose the approach for a 45-day public comment period ending May 3. The motion passed unanimously.

Having no further business, the Long-Term Care Actuarial (B) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/B CMTE/HATF/2024_Spring/LTCAWG/3-15 LTCAWG/LTCAWG Minutes 03-15-24.docx

Multi-State Actuarial LTC rate increase review method

Fred Andersen, FSA, MAAA

8/12/2024

Background re: all cost sharing in MN approach

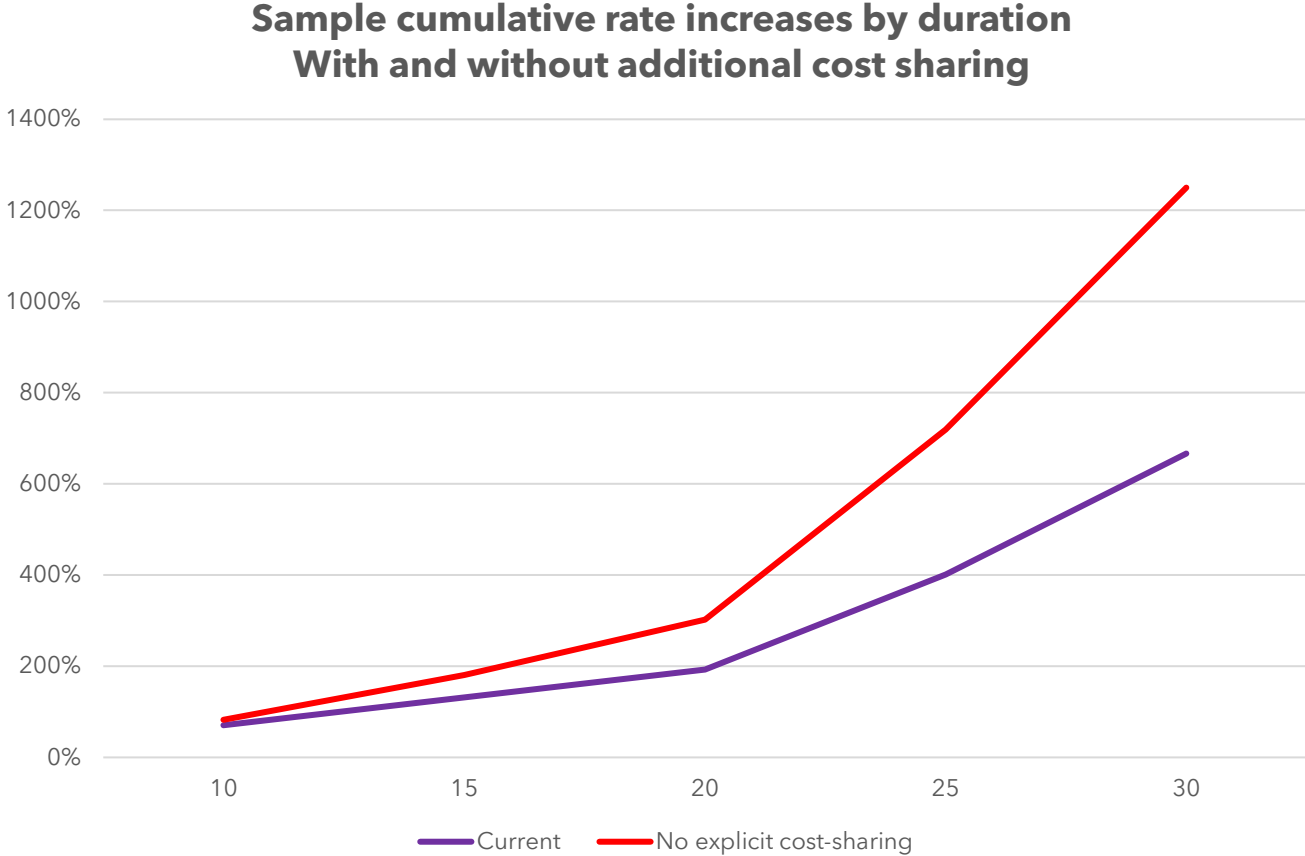
- Implicit and explicit cost sharing
 - Blending away from the makeup premium is one form of cost sharing (implicit)
 - This aspect ensures any rate increase will not lead to improved financial expectations for the company from original pricing
 - This aspect also ensures the policyholder is still getting “bang for the buck” even after a rate increase
 - The rate increase is a reflection of increased costs associated with the policy
 - Otherwise, the rate increase would not be approved
 - The cost-sharing formula is additional (and explicit) cost sharing
 - To address that very high rate increases over time were very likely not presented to the consumer as a possibility at the time of sale

Background re: cost-sharing formula

- Increases the company burden as cumulative rate increases rise
- The cumulative-since-issue, blended if-knew / makeup premium-based increase is reduced by a “haircut” percentage
 - No haircut for the first 15%.
 - 10% for the portion of cumulative rate increase between 15% and 50%
 - 25% for the portion of cumulative rate increase between 50% and 100%
 - 35% for the portion of cumulative rate increase between 100% and 150%
 - 50% for the portion of cumulative rate increase in excess of 150%.
- The formula was developed in 2015

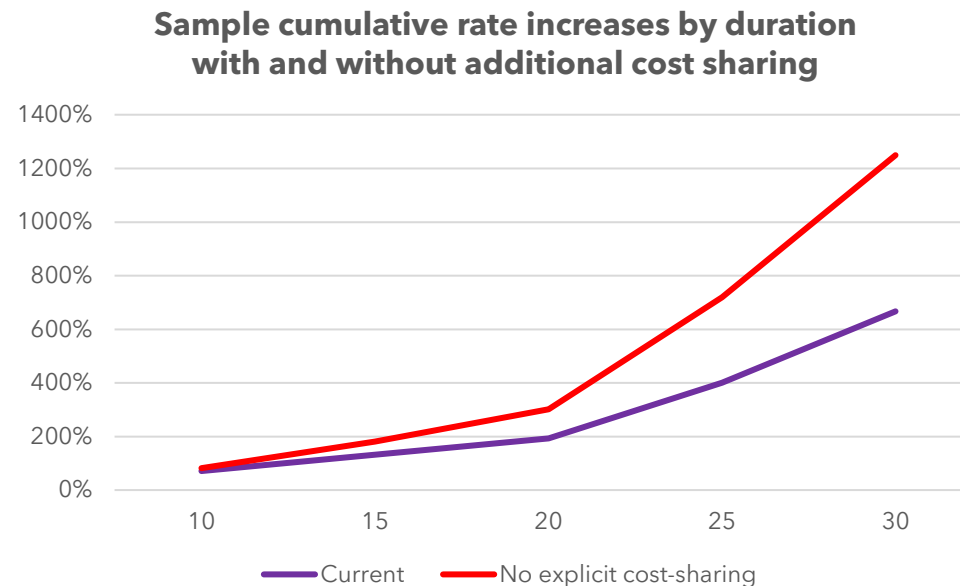
Background re: cost-sharing formula

- For a typical block of business, pattern of rate increases with and without additional cost sharing:



Re-analysis of cost-sharing formula, 9 years later

- Effective at reducing rate increases from those without additional cost sharing
- Increasingly concerning level of cumulative rate increases as blocks approach duration 25
 - The cumulative rate increases are not leveling off
 - Graphical example of the “85/25” issue, a.k.a., the “85/25/400” issue



Re-analysis of cost-sharing formula, 9 years later

- The original formula did not contemplate cumulative rate increases reaching or exceeding 400% over time
- Led to 85/25/400 issue
- Analysis shows that adjusting the parameters of the formula may help address the issue

Proposed revision to cost-sharing formula to address “85/25” issue

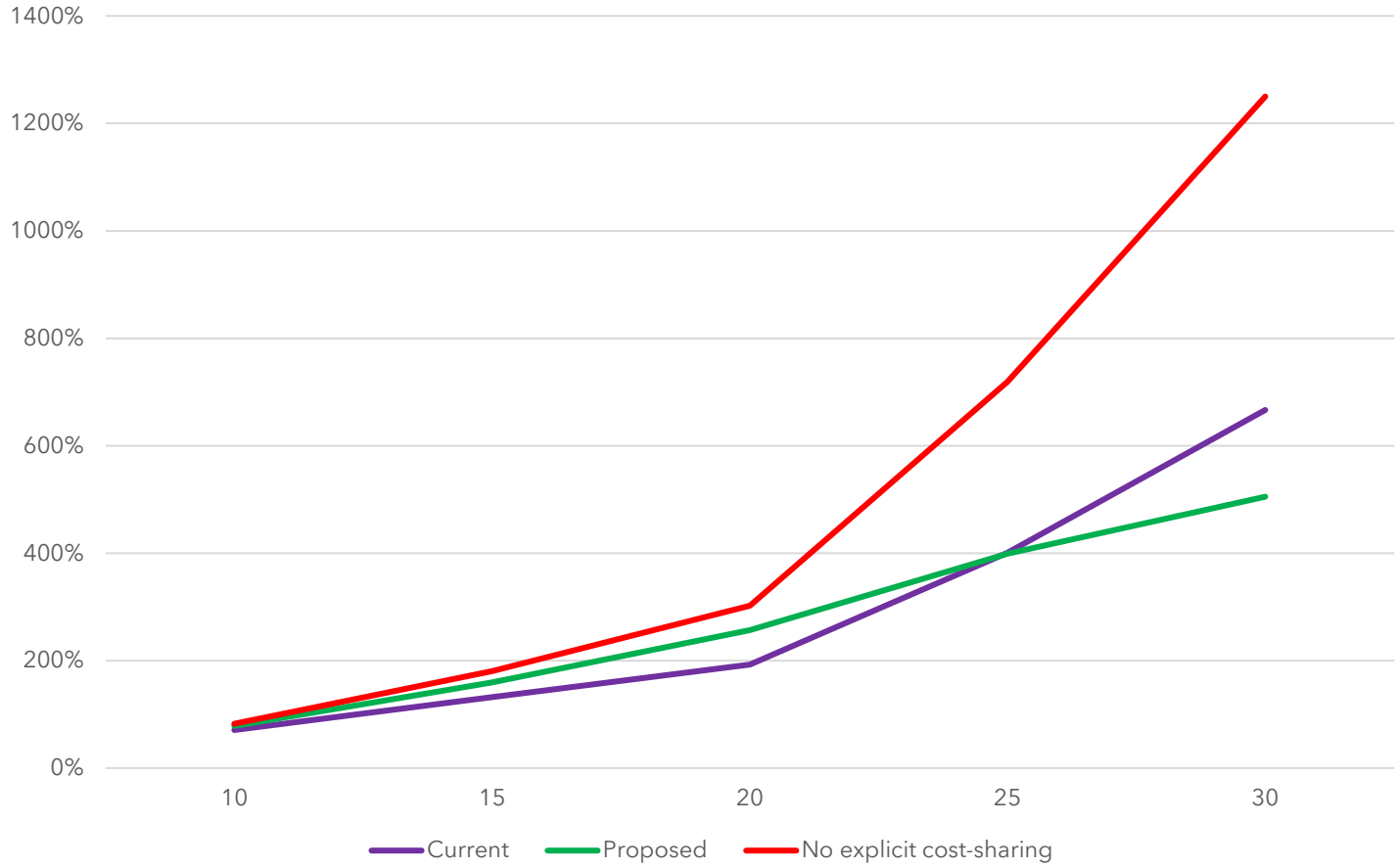
- Adjust ranges and percentages in the explicit cost-sharing formula
 - The higher the percentage, the higher the burden for the policyholder
 - The lower the percentage, the higher the burden for the company

Proposed revision to cost-sharing formula to address “85/25/400” issue

- Current:
 - No haircut for the first 15%.
 - 10% for the portion of cumulative rate increase between 15% and 50%
 - 25% for the portion of cumulative rate increase between 50% and 100%
 - 35% for the portion of cumulative rate increase between 100% and 150%
 - 50% for the portion of cumulative rate increase in excess of 150%.
- Proposal:
 - 5% haircut for the first 100%
 - 20% haircut for the portion of cumulative rate increase between 100% and 400%
 - 80% haircut for the portion of the cumulative rate increase in excess of 400%

Result of proposed revisions

Sample Cumulative rate increases by duration
Various additional cost-sharing



Next Steps

- Discuss if the revised additional cost-sharing appropriately addresses the 85/25/400 issue
- Discuss any other potential consequences
- Analyze results for blocks other than the sample block
 - e.g., Older, newer, richer benefits, less rich benefits, different histories of rate increases
- Propose any alternatives

From: Gaines, Ned (OIC) <Ned.Gaines@oic.wa.gov>
Sent on: Thursday, July 18, 2024 5:52:07 PM
To: King, Eric <EKing@naic.org>
CC: Kropelnicki, Jenny <Jenny.Kropelnicki@oic.wa.gov>; Kreidler, Mike (Cmrs. Private) <mb.kreidler@oic.wa.gov>
Subject: RE: Long-Term Care Actuarial (B) Working Group Exposure - Comments Due August 1

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Hi Eric,

On behalf of Commissioner Kreidler please see Washington's comments below. Please let me know if you have any questions.

Regarding the Minnesota Approach with adjustments to haircut percentages or cumulative rate increase ranges of the cost-sharing formula: we don't have an issue with the percentages outlined in the MSA rate review proposal. Our concern is that the Minnesota approach considers some recoupment of past losses via rate increases for current policyholders. Past losses are almost entirely from people who are on claim and thus not paying premiums. Charging current policyholders for those losses puts the burden on the wrong people and appears to violate actuarial standards.

Thank you.



Ned Gaines

CIE, CICS, MCM, ACP, ACS,, AIC, AINS, AIRC, PLCS

Deputy Commissioner

Rates, Forms & Provider Networks Division

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July 23, 2024

Fred Andersen, Co-Chair
Paul Lombardo, Co-Chair
Long-Term Care Actuarial (B) Working Group (LTCAWG)
Long-Term Care Insurance (B) Task Force
National Association of Insurance Commissioners (NAIC)

Via email: eking@naic.org

Re: Minnesota Approach as a Candidate for a Single Long-Term Care Insurance (LTCI) Multistate Rate Review Approach

Dear Co-Chairs Andersen and Lombardo,

On behalf of the American Academy of Actuaries' (Academy)¹ Long-Term Care (LTC) Committee (Committee) we offer the following comments in response to your July 2 request for comments on the Minnesota approach by the NAIC's LTCAWG:

The Working Group requests comments on the Minnesota Approach with adjustments to haircut percentages or cumulative rate increase ranges of the cost-sharing formula as a candidate for a Single LTCI Multistate Rate Review Approach.² The adjustments are intended to increase cost-sharing burden for the company where cumulative rate increases are very high (which tends to be the case for higher-age policyholders, higher-duration policies) and potentially decrease cost-sharing burden for the company for lower-duration policies.

Non-Actuarial Considerations

In evaluating the Minnesota approach, the Committee notes that the method includes both actuarial and non-actuarial considerations. The April 2022 [LTCI Multistate Rate Review \(MSA\) Framework](#) includes several paragraphs regarding non-actuarial considerations in Section V.F. ("Non-Actuarial Considerations"):

The Long-Term Care Insurance (EX) Task Force continues to review and consider non-actuarial considerations affecting states' approval or disapproval of LTCI rate changes to develop consensus among jurisdictions and develop recommendations for application of these considerations. These considerations include such topics as:

¹ The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

² <https://content.naic.org/sites/default/files/documents/lhci-msa-framework.pdf>

1. Caps or limits on approved rate changes.
2. Phase-in of approved rate changes over a period of years.
3. Waiting periods between rate change requests.
4. Considerations of prior rate change approvals and disapprovals.
5. Limits or disapproval on rate changes based solely or predominately on the number of policyholders in a particular state.
6. Limits or disapproval on rate changes based on attained age of the policyholder.
7. Fair and reasonableness considerations for policyholders.
8. The impact of the rate change on the financial solvency of the insurer.

As these items are based on pragmatic considerations, rather than mathematical principles of actuarial science, defining them as “actuarially justified” seems inappropriate. Of particular concern to the Committee are comments cited in the [minutes](#) of the February 20, 2024, LTCAWG Virtual Meeting:

(Co-Chair) Andersen said the general consensus received from Working Group members and regulators is to not dismiss aspects of proposals labeled as “non-actuarial” by the American Council of Life Insurers (ACLI), and that the Working Group should consider all proposals made thus far regarding incorporation into a single actuarial approach. Lombardo said he has received feedback from regulators that these should be considered new actuarial techniques and not necessarily non-actuarial. He said going forward, such things can be considered actuarial in nature even if historically they were not.

The Committee would be very interested in learning more about any new actuarial techniques being proposed for use in LTC rate regulation. However, we do not believe that applying retrospective modifications to existing rate regulation of in-force policies, solely for the purpose of reducing actuarially determined rate increases on certain subsets of insureds, can be considered a purely actuarial approach. It is not clear which specific subsets of insureds will be affected, or whether these represent appropriate classes of insureds under the filed premium rate structure of the policies. Overall, we believe that designation of an item as being “actuarial” in nature should be based on mathematical principles of actuarial science, not policy or pragmatic considerations.

As stated in our October 8, 2021, [comment letter](#),

We believe that the Minnesota approach embeds implied policy decisions that are not actuarial in nature. While the calculations themselves may require actuarial methods, ... the approach embeds non-actuarial considerations that seek a “fair and reasonableness consideration,” the level of which is not clearly defined. Also, as the approaches labeled “if-knew / makeup approach” and “cost-sharing formula” are public policy decisions that are not specified in adopted model law, defining them as “actuarially justified” seems inappropriate.

It is not clear how moving to a single approach will address the above concerns. The MSA Review is a recommendation only, as an individual state retains the ability to perform additional analyses after receiving the report. Should a single approach be adopted for the MSA Review, it is the Committee’s strong recommendation that the approach be based on actuarial fundamentals. Should an approach that entails comparing multiple methods be used, clear guidance that helps guide regulators to determine the best method for a given filing must be developed.

Working Group Recommendations

As the Committee reviewed the [February 2024 exposure](#), “Recommendation on a single MSA actuarial approach after regulator feedback,” we offer the following comments on considerations No. 1 to No. 7:

RECOMMENDATION BASED ON APPARENT CONSENSUS:

- 1. Generally have lower rate increases for those at very advanced ages with high-duration policies that have had substantial past rate increases.**

Appropriate implementation to avoid administrative and discrimination concerns may be to adjust the method for older blocks (which tend to have older policyholders that have been subject to substantial past rate increases) instead of differentiating rate increases by age within a block.

Recognize that high-duration policyholders have:

- tended to have the most benefit from what proved to be underpricing due to the number of underpriced premiums paid;**
- tended to have been the most surprised by the magnitude of cumulative rate increases compared to any that could have been expected when the policy was issued.**

Committee Comments: It is not clear exactly how the Minnesota Approach would be adjusted to get to the “appropriate implementation.” We recommend that any concrete proposal take into account the provisions of ASOP No. 12, *Risk Classification*.

- 2. Do not dismiss aspects of proposals labeled as “non-actuarial” by the ACLI.**

Consider all proposals made thus far regarding incorporation into a single actuarial approach.

Committee Comments: Please see our comment above regarding Non-Actuarial Considerations.

- 3. Balance between consumer protection and preventing further financial distress for insurers.**

Further analysis may be necessary to assess certain attractive proposal aspects how they maintain this balance.

Committee Comments: We recognize that the method and framework may include both actuarial and non-actuarial components to address consumer protection concerns and prevent further financial distress for insurers. Please see our comments above regarding Non-Actuarial Considerations.

- 4. Continue including a catch-up provision in a single actuarial approach for attaining a similar rate level between states.**

Align with actuarial soundness, consumer fairness, insurers’ financial sustainability, and regulatory considerations.

Committee Comments: We agree that a catch-up provision is appropriate to address disparities across states. However, using a catch-up provision which looks solely at current rate equity does not consider historical state regulatory decisions. This would include scenarios where a company may have filed for an appropriate rate increase and the request was denied or limited in approval. By considering only the current rate, an unintended consequence could result that encourages states to delay approving rate increases.

5. Continue to encourage buy-in from states on the MSA actuarial approach.

Perhaps LTC Task Force leadership could have individual meetings with states that tend to approve the lowest rate increases, providing information and addressing questions.

Acknowledge that some states that perform detailed reviews of state filings will tend to review and consider their own method and compare with the MSA recommendation; some states are committed to following the MSA recommendation. States that aren't able to perform detailed reviews are more likely to rely on the MSA.

Committee Comments: We agree with the goal to encourage buy-in from states, leading to greater consistency and predictability of LTC rate regulation across more jurisdictions. It is not clear from the description how much state regulatory buy-in will increase by limiting the MSA Review to a single methodology. As noted in our [previous comments](#) on the MSA from October 2021:

Insurers may want to file rate increase requests in non-participating states concurrently with the MSA Review filing so that the insurer does not needlessly delay the filing and review process in non-participating states. It is unclear if and how insurers will know which states are Participating States in the MSA Review, and whether states will decide on participation in the MSA review each time any rate increase request is submitted.

A growing number of states now ask about the Texas/PPV and Minnesota Methods in their own reviews. If the LTCAWG introduces additional policy decisions into the methodology, it is possible that this will have a more significant impact beyond filings submitted through the MSA and participating states alone. This reinforces the need for clear guidance about what is a non-actuarial/policy decision, so that these states know this when asking for information outside of an MSA rate review.

6. Pre-approve and phase in rate increases over a reasonable period of time as opposed to requiring annual re-filings.

Part of the reason is pre-approved phased-in rate increases transparently enable policyholders to make well-informed decisions about their LTC policy based on the most likely future rates.

Also, pre-approved phase-ins eliminate work effort for companies and regulators that often provides little value.

Committee Comments: We agree with these comments. The Committee would note, as we did in our July 26, 2021, [comment letter](#), that phasing-in a rate increase should ordinarily result in ultimate rates higher than if a single actuarial equivalent rate increase were implemented. Additionally, it is not clear, under a phased-in approach for an increase with the catch-up provision, which would take precedence: ensuring similar rate levels or actuarial equivalence of the proposed rate increase. If the latter, the ultimate rate level would be higher for states where the catch-up provision has been applied.

RECOMMENDATIONS, BUT SPLIT VIEWS AMONG REGULATORS:**7. If-knew weighting and additional cost-sharing considerations**

Study impacts on rates and solvency of various weights (including the Utah proposal) as well as the potential effects of eliminating an explicit cost-sharing provision.

Committee Comments: It is not clear exactly how the weights or cost-sharing in the Minnesota Approach would be adjusted. We recommend that any concrete proposal take into account the provisions of ASOP No. 12, *Risk Classification*.

The Committee welcomes the opportunity to speak with you in more detail and answer any questions you have regarding these comments on finding a single MSA approach. If you have any questions or wish to discuss these comments further, please contact Matthew Williams, the Academy's senior health policy analyst (williams@actuary.org).

Sincerely,

Andrew Dalton, MAAA, FSA
Chairperson, LTC Committee
American Academy of Actuaries

CC: Eric King, Health Actuary, NAIC

RE: Long-Term Care Actuarial (B) Working Group Exposure - Comments Due August 1

LW Leung, William <William.Leung@insurance.mo.gov>
 To: King, Eric
 Cc: Rehagen, John; LeDuc, Jo; Murrach, Chris; Lombardo, Paul; Andersen, Fred

You replied to this message on 7/25/2024 6:23 PM.

Single Formula example 2.xlsx
 .xlsx File

Reply Reply All Forward Thu 7/25/2024 4:27 PM

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Good afternoon Eric,

Missouri is supportive of the development of a single MSA actuarial approach exposed and believe the following adjustments will be appropriate:

- a) The cumulative rate increase should be no more than 600% after all the adjustments and cost sharing.
- b) Each rate increase filing should not increase the cumulative rate increase by more than 100% from that of the current rate.

Adjustment a) can be achieved by increasing the cost sharing when cumulative rate is more than 500%. For example, increase the cost sharing from 50% to 90% when CRI exceeds 500% and further increase to 95% when CRI exceeds 1000%. The cost sharing is increased to 100% when CRI exceeds 5000%.

Potential Cost-Sharing Formula for Typical Circumstance Cumulative Rate Increase (CRI) since issue date is haircut by:							
Current				Propose			
CRI	Hair cut	Applicable CRI	with Hair cut	CRI	Hair cut	Applicable CRI	with Hair cut
15%	0	15%	15%	15%	0	15%	15%
50%	10%	35%	32%	50%	10%	35%	32%
100%	25%	50%	38%	100%	25%	50%	38%
150%	35%	50%	33%	150%	35%	50%	33%
300%	50%	150%	75%	300%	40%	150%	90%
500%	50%	200%	100%	500%	50%	200%	100%
1000%	50%	500%	250%	1000%	90%	500%	50%
5000%	50%	4000%	2000%	5000%	95%	4000%	200%
100000%	50%	95000%	47500%	100000%	100%	95000%	0%
CRI allowed		100000%	50042%	CRI allowed		100000%	557%

Below is an example of the result from a recent filing where the blended cumulative rate increase was 3811%:

Propose			
CRI	Hair cut	Applicable CRI	with Hair cut
15%	0	15%	15%
50%	10%	35%	32%
100%	25%	50%	38%
150%	35%	50%	33%
300%	40%	150%	90%
500%	50%	200%	100%
1000%	90%	500%	50%
5000%	95%	2811%	141%
100000%	100%	0%	0%
CRI allowed		3811%	497%

Incidentally, the adjustment above also lowers the hair cut from 50% to 40% when the cumulative rate increase is >150% and <=300%. This is one of the desired feature in the request attached to the exposure.

Adjustment b) is demonstrated below using the details in the development of the maximum allowable rate increase from a recent MSA filing.

Minnesota (Blended if-Knew/Make-up) Approach	current	Propose
Loss ratio at the original premium level	61.5%	61.5%
Minimum loss ratio applicable to the form	60%	60%
If Knew Increase	142%	142%
Make-up increase	10153%	10153%
Remaining policyholders percentage	37%	37%
Blended increase	3811%	3811%
Cost sharing increase	1947%	1947%
Past rate increase	514%	514%
Cumulative rate increase limited to 100% ORI		614%
Rate Increase under MN approach in % of CR	233%	16%
Max Justified Rate Increase = (1+MUJ)/(1+PRI)-1	1571%	1571%
Maximum allowable rate increase	233%	16%

These two changes fit in very well with the current framework.

The examples used are real life examples. I can change the numbers if you see there is any potential confidentiality conflicts.

An excel spread sheet is included for easy testing of or modification to these changes.

Genworth Life Insurance Company & Genworth Life Insurance Company of New York Response to Request for Comment on Rate Increase Cost-Sharing August 1, 2024

The Working Group requests comments on the Minnesota Approach with adjustments to haircut percentages or cumulative rate increase ranges of the cost-sharing formula as a candidate for a Single LTCI Multistate Rate Review Approach. The adjustments are intended to increase cost-sharing burden for the company where cumulative rate increases are very high (which tends to be the case for higher-age policyholders, higher-duration policies) and potentially decrease cost-sharing burden for the company for lower-duration policies.

As outlined in the letter submitted May 3, 2024, Genworth believes that additional clarity and detail is needed regarding the existing MSA Framework to properly consider a proposal for a single methodology. Specifically, the areas regarding weighting, cost-sharing, solvency, discount rate, and the use of the sample policy method vs. the aggregate method lack sufficient detail to properly assess the methodology as a predictable and reliable approach. Genworth appreciates that discussion is ongoing for many of these open items and submits the following comments on the current exposure as a continuation of our previous comments.

Genworth would like to further demonstrate the impacts of the various elements of cost-sharing with an example, and a proposed refinement. Below is a walkthrough of a theoretical example of a pre-Rate Stability product with a history of past rate increases. These examples demonstrate the impacts of the various elements of cost-sharing with the use of two different approaches to dealing with prior cumulative rate increases, which has been a source of confusion in applying the MN method historically. It is Genworth's intention that these examples will highlight the extent to which differing interpretations of these various factors can affect the final outcome, emphasizing the need for the requested clarity in the method.

The below assumptions and cash flow modeling approaches are key components that influence the outcome of the Minnesota method. Genworth has historically handled these components as follows and many regulators have accepted this interpretation as an acceptable application of the Minnesota Method.

- **Discount Rate:** A 4% discount rate is utilized, consistent with the Statutory Valuation rate a typical pre-Rate Stability block might see during issuing years and loss ratio regulation guidance, to not receive additional rate increase relief due to changes in interest rates.
- **Margin for Moderately Adverse Experience (MAE):** As the example shown is based on a pre-Rate Stability (RS) product, the projections do not include margin for MAE. MAE would be expected to be included on all post-RS products, as expressly required by model regulation.
- **Aggregate Method:** While the MSA Framework details two potential approaches, it is our experience that the Aggregate Method (as opposed to the Sample Policy Method) is more straightforward and widely understood. We do not believe that the Sample Policy Method is sufficiently explained in the MSA Framework, and therefore have utilized the Aggregate Method.
- **Waiver of Premium (WOP):** In this example, we have not removed either the premium or benefits associated with waived premium, which is consistent with the pricing of our products. Removal of WOP benefits during a rate increase exercise without adjusting the original pricing targets could amount to an additional form of cost-sharing.
- **Rate Increase Implementation Date:** These examples assume the make-up rate increase will be implemented after considering the time necessary for the preparation and submission of a filing,

regulator review and approval, and the administrative work required to implement the approval. Some interpretations of the MN method have assumed the approval would be implemented on the valuation date, which is not a realistic assumption.

Example A: MSA Framework Method of Handling Prior Rate Increases

Steps	Description	Rate Increase Result	Lifetime Loss Ratio
	<i>Prior Cumulative Rate Increases</i>	325%	
	<i>Best Estimate Projections</i>		95%
	<i>Since Inception If-Knew</i>	127%	
1	Make-Up Cumulative Justified Rate Increase	2042%	
2	MSA Blended Cumulative Rate Increase	1215%	
3	MSA Blended Cumul RI - with Add'l Cost-Sharing	649%	
4	MSA Blended RI - backout Prior Rate Increases	76%	84%

- Step 1: The cumulative rate increases needed to get the block back to a lifetime loss ratio of 60%. Note that the incremental increase above the already implemented rate increases would be only 404%.
- Step 2: Blending the If-Knew rate increase with the make-up increase
- Step 3: Applying the cost-sharing factor to the blended amount
- Step 4: Backing out prior cumulative rate increases of 325%

Example B: Backing Out Prior Rate Increases Before Additional Cost-Sharing

Steps	Description	Rate Increase Result	Lifetime Loss Ratio
	<i>Prior Cumulative Rate Increases</i>	325%	
	<i>Best Estimate Projections</i>		95%
	<i>Since Inception If-Knew</i>	127%	
1	Make-Up Justified Rate Increase	404%	60%
2	Blended Rate Increase (Floored If-Knew)	229%	70%
3	Blended RI with Add'l Cost-Sharing	156%	76%

This is an alternative approach to the steps outlined in the MSA Framework examples that we believe better applies the intended principles in a format that is transparent, easy to replicate, and makes reasonable adjustments such as eliminating instances where rate decreases are suggested.

- Step 1: The prospective rate increase needed to get the block back to a lifetime loss ratio of 60% (can be calculated by removing the 325% prior cumulative rate increases from the 2042% make-up cumulative increase in Example A)
- Step 2: Since the prior cumulative rate increases are greater than the If-Knew result, it is most reasonable to back out the prior rate increases and floor the If-Knew portion of the calculation at 0%, less the methodology suggest a rate *decrease* is appropriate (which is illogical given the exercise was initiated by a deterioration in experience). If the If-Knew portion were not floored at 0%, the result would be a Blended Rate Increase of 209%, implying an If-Knew contribution of (47)%.

- Step 3: The resulting rate increase is then reduced by the additional cost-sharing provision

As seen in the above examples, a 404% prospective increase is justified and supported by regulations. Cost-sharing is applied in a variety of ways:

1. Blending with If-Knew, a hypothetical rate increase that relies on historical fictional premiums which cannot be collected by the company to pay actual claims.
2. Not flooring the If-Knew contribution at 0% when it is lower than prior justified and approved cumulative increases. In Example B, not flooring the if-knew contribution at 0% would mean that a (47)% rate increase was being used in the weighting, driving down the blended increase from 229% to 209%.
3. Additional cost-sharing. As seen in Example B, the LLR is driven up to 71% before the additional cost-sharing factors are applied, well above the 60% to which the block was originally priced. This does not suggest that a 71% LLR is always a reasonable target for a block of LTC, but an 11% increase in the LLR is a significant level of cost sharing already being produced.
4. Backing out cumulative increases after applying the additional cost-sharing. As shown in Example B, the highest amount that could be requested is 404%, but applying the additional cost-sharing provision to the calculation prior to backing out prior increases applies a haircut based on a much higher percentage (in Example A, based on 1215%). The difference resulting from backing out the cumulative increases before vs. after the additional cost-sharing is a reduction in the rate increase from 146% and LLR of 77% (derived from Step 2 Example B, not shown) to a rate increase of 76% while driving the LLR up to 84% (Step 4 of Example A). For older blocks of business, this blended amount will typically be quite large, and therefore the additional cost-sharing will have a natural pull to a 50% haircut given the low and narrow cost-sharing bands.
5. Implementation delay. As the MSA Framework examples are silent on use of realistic implementation date in the calculations, use of the cash flow valuation date as the implicit assumed rate increase date results in an increase to the LLR due to the natural lag from valuation date to actual implementation date.

Conclusion

The end result of these various haircuts and elements of cost-sharing in this example is that the LLR goes down from 95% to 85% when following the MSA Framework as currently described (and applying the modeling components mentioned above). In a more transparent and intuitive stepwise approach, the LLR may go down to 76%, though still far above the pricing LLR of 60%, representing significant cost-sharing. On older blocks, the results of the MSA Framework approach to cost-sharing are much more severe and can result in an LLR above 100%. Any further impacts from universal removal of WOP (as has been suggested), exclusion of margin for MAE from Rate Stability products, changing the discount rate, use of the Sample Policy method, arbitrary lifetime rate caps, or attained age limitations all serve to further deteriorate the financial position of LTC carriers. The additional cost-sharing provision, not grounded in any specific actuarial or analytical methodology, is already arbitrary, applied after blending with the non-actuarial If-Knew rate increase, and rewards states that have been slow to approve past rate requests, further driving cross-state premium inequities.



August 1, 2024

Paul Lombardo, Co-Chair, NAIC Long-Term Care Actuarial Working Group
Fred Andersen, Co-Chair, NAIC Long-Term Care Actuarial Working Group

Dear Paul and Fred,

We appreciate the opportunity to provide comments on the ongoing discussions and exposures related to the potential adoption of the Minnesota Method as the single Long-Term Care Insurance (LTCI) Multistate Rate Review (MSRR) approach and addressing policyholders who may have seen significant rate increases at later attained ages. ACLI and AHIP members are committed to adhering to sound actuarial practices and support efforts to achieve clarity and predictability in the MSRR process. This has been a challenging process, and we truly appreciate regulators' efforts.

The current exposure requests comments *“on the Minnesota Approach with adjustments to haircut percentages or cumulative rate increase ranges of the cost-sharing formula as a candidate for a Single LTCI Multistate Rate Review Approach.”*

We appreciate the efforts made by the NAIC Long-Term Care Actuarial Working Group to standardize the MSRR process for LTC rate filings. Our comments below aim to enhance transparency regarding existing cost-sharing levels and to address some concerns with the Minnesota Method.

Concerns with the Adoption of the Current Minnesota Method

Our concern with the formal adoption of the current Minnesota Method as the single approach without addressing clarifications and refinements are described below. We believe that by keeping the door open for further discussion and refinement, we can develop a methodology that aligns with actuarial principles and provides the necessary clarity and predictability for both insurers and regulators.

Areas of concern include:

- **Cost-Sharing Implications:** The current Minnesota Method contains multiple cost-sharing aspects, including the "if-knew" premiums, blending approaches, and cost-sharing factors. It is important to acknowledge and address these elements when considering additional limitations on rate increase levels.
- **Transparency and Complexity:** The cost-sharing aspects in the current Minnesota Method are embedded within multiple calculations, making it challenging to quantify the actual level of cost sharing that currently exists.
- **Lack of Detailed Guidance:** The existing MSRR framework lacks sufficient detail (e.g. treatment of waiver of premium, inclusion of moderately adverse experience, decisions regarding use of aggregate vs. sample policy methods), making it challenging to establish a

reliable baseline for modeling or quantifying impacts. This has resulted in varied interpretations and inconsistent application of the Minnesota Method across states and insurers, leading to different outcomes based on subjective assessments. This inconsistency adds complexity and uncertainty for insurers.

- Unique Characteristics of LTC Blocks of Business: The prescriptive cost sharing table within the current Minnesota Method lacks flexibility to address the unique circumstances of different LTC blocks, products, and policyholder demographics.
- LTC Blocks Should be Self-Sustaining: The Minnesota Method can produce results that may not be self-sustaining (i.e. the method can produce rate increases that result in a lifetime loss ratio in excess of 100%), which may result in insufficient rates.

Request for Clarifications and Further Engagement

We were hoping that the clarifications raised in earlier comment letters would be addressed before proceeding with the adoption of the Minnesota Method as the single MSRR approach. It is crucial to address these issues before any formal adoption, including:

- Address Open Questions from May 3 Comments
 - We encourage the working group to provide detailed responses to the questions and concerns raised in the May 3 comment letters submitted by various stakeholders. This will help ensure that the methodology is fully understood, transparent, and consistently applied.
- Provide Transparency on Cost Sharing Mechanisms
 - Ensure that there is a clear understanding by all stakeholders of the existing cost-sharing mechanisms embedded in the Minnesota Method, including how any potential adjustments would impact both insurers and policyholders.
- Facilitate Discussion on Clarification of Certain Aspects of the MSRR and Methodological Refinements to Increase Transparency and Uniformity
 - We encourage a thorough review of potential refinements to the current Minnesota Method to address regulatory concerns of large cumulative rate increases at later durations and attained ages.
 - Provide clarification with respect to treatment of:
 - Explicit Inclusion of MAE: Develop clear guidelines on when and how additional margins should be included in projections.
 - Standardization of Waiver of Premium based on original product pricing.
 - Relevant Discount Rates: Permit the use of investment returns assumed in Cash Flow Testing for present value calculations.
 - Aggregate vs. Sample Policy Methods: Clarify when each method should be used.
 - Recognition of a feasible implementation date when finalizing the rate increase proposal.

Potential Refinements to the Current Minnesota Method

One approach, described below, maintains the core principles of the Minnesota Method and refines the method by:

- eliminating the costs associated with terminated policies and
- introducing more precise recognition of block dynamics while providing similar flexibility to address more mature blocks.

This proposed approach is consistent with sound actuarial principles, simpler to apply, and may be more intuitive and accessible to those who are not experts in LTC experience and pricing analysis. It provides a clearer understanding of the actual rate increase needed, removing the embedded cost sharing included in the Minnesota Method (e.g., the blending step). This makes any cost sharing analysis and decisions more explicit and specific to each company/block of business, enhancing transparency and equity across blocks.

Key Concepts:

1. Assess Total Lifetime Experience: Base the assessment on the most recent assumptions to ensure accuracy.
2. Calculate If-Knew Premium on Only Active Lives: At this premium rate, active insureds would pay only the amount that should have been paid since inception of the policy. This approach represents an element of cost sharing and provides no level of recognition for the deficiency of past premiums associated with terminated policies.
3. Calculate Make-Up Premium on Only Active Lives: Exclude losses associated with terminated lives from the calculation, directly addressing concerns raised by regulators.
 - a. The incremental make-up premium reflects the accumulated past premiums the active policyholders would otherwise have paid, spread over the remaining future payment period.
 - b. At this rate level, active policyholders are receiving actuarially appropriate benefits for the premiums paid and maintain the opportunity to reduce benefits to adjust the premiums, again maintaining actuarially appropriate benefits relative to premiums.
4. Apply Rate Increase Mitigation or Cost Sharing Adjustments to Incremental Make-Up Premium Only: Make these adjustments explicit and subject to discussion between the regulator and the company, based on the specific aspects of a company's profile and block of business.

We believe that incorporating these modifications will lead to a more predictable, sustainable, and transparent methodology for all stakeholders.

We are currently working on modeling the above refinements to demonstrate their impact on various blocks of business.

Summary

Our primary concerns are:

- the adoption of the current Minnesota Method as the single approach without first addressing the clarifications and refinements needed.
- the need for transparency with respect to the degree of cost sharing that is contained in the Minnesota Method.

We believe that by keeping the door open for further discussion and refinement, we can develop a methodology that provides the necessary clarity and predictability for both insurers, regulators and policyholders.

Thank you for considering these important issues.

Sincerely,



Jan Graeber
Senior Actuary, ACLI



Ray Nelson
Consultant for AHIP